

International Travel in 1950

INTERNATIONAL travel expenditures constitute a relatively minor but growing item in the balance of international payments of the United States. Their full significance and impact on the domestic and foreign economies cannot be measured by their dollar value alone. Such expenditures in 1950, including payments to foreign sea and air carriers, accounted for about 7 percent of the total United States purchases of foreign goods and services. They may be said to have paid for about 8 percent of our exports.

Without foreign travel by Americans the foreign deficit on goods and services in 1950 would have been 40 percent higher, which indicates the much larger marginal importance of this item in the balance of international payments. It also is noteworthy that United States tourist expenditures abroad in 1950 were about equal in size to net direct investments by American enterprises in their foreign branches and subsidiaries, or that they provided about half the amount of dollars required by foreign countries to pay interest and dividends on American investments abroad.

The importance of United States tourist expenditures is, however, even greater for certain foreign countries where these expenditures provide a large part of their actual and potential dollar earnings. Export of services as a source of foreign exchange earnings are particularly important for those countries where capital is relatively scarce and labor relatively inexpensive and which find it relatively difficult, therefore, to compete with the mass production industries of the larger and more industrially advanced countries.

Travel expenditures up 7 percent in 1950

During 1950, notwithstanding the risk to transatlantic travel brought into the open by the Communist aggression in the Far East, United States travel expenditures abroad were about 7 percent higher than during 1949. (See table 1.) The increase was almost entirely concentrated in overseas travel; expenditures in the neighboring countries remained nearly constant. The rise in total travel expenditures represented a continuation of the trend existing since the end of the war which carried these expenditures to a new high for both the postwar and prewar period, probably even after allowing for price changes.

The rise in United States travel expenditures abroad from 1949 to 1950 was much smaller than during the preceding year, indicating that travel, although it was still held below the current demand by limitations of transportation facilities, was gradually approaching the volume which can be expected at current incomes. Considerable differences exist in this respect, however, between travel expenditures in different areas.

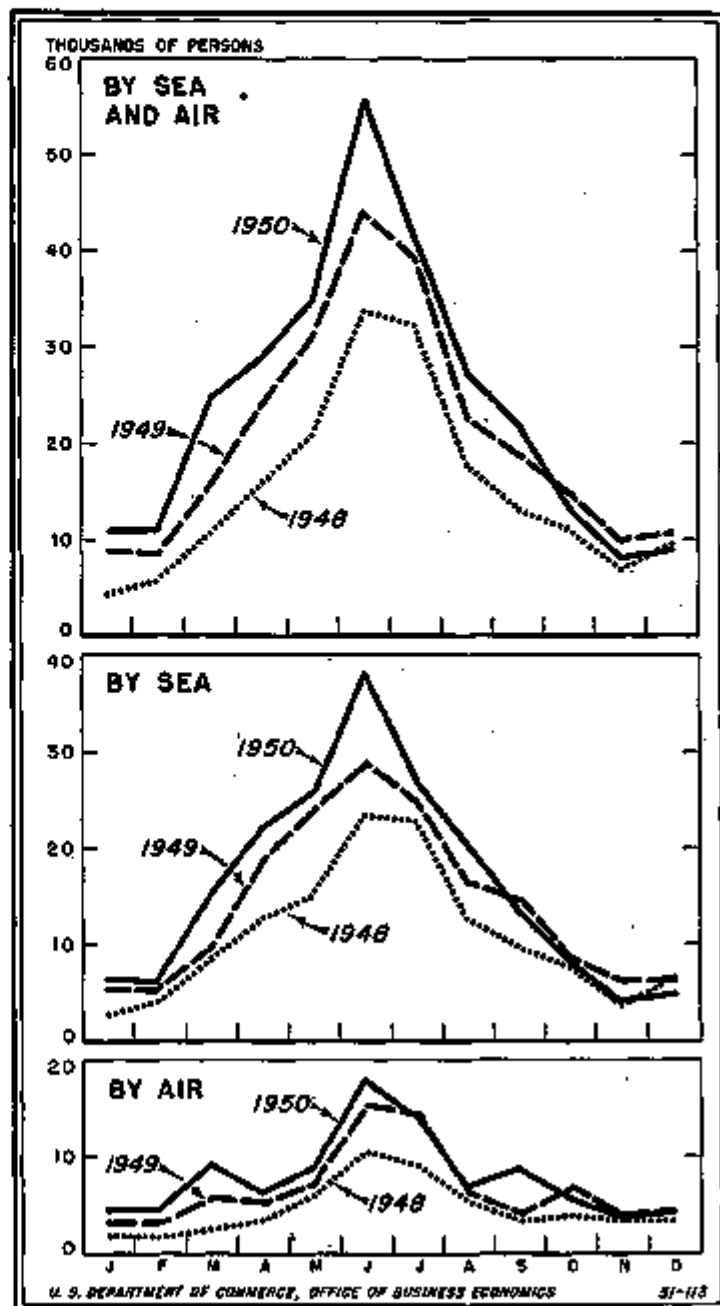
Expenditures rise in European area

Travel expenditures in Europe and the Mediterranean area rose from \$185 million in 1949 to \$225 million in 1950. In addition, United States travelers paid to European ships and planes about \$97 million in 1949 and \$133 million in 1950. The \$40 million rise in expenditures in that area was smaller than during the preceding year (see table 1), but in both years this rise accounted for nearly all the increase in total travel expenditures abroad.

In 1950, travelers for the first time spent more money in Europe than in 1929, the previous peak. Yet, the small difference between the 2 years is less than can be accounted for by the rise in prices, so that real expenditures still remained below 1929. This is also indicated by the fact that the number of travelers was less than the 1929 peak.

Two major factors may account for this development. First, there still appeared to be a limitation upon the capacity of transport facilities to Europe during 1950, particularly of ocean vessels, during the peak season.

Chart 1.—United States Citizens Departing for Europe From All United States Ports



1 The word "tourist" is used here synonymously with "traveler" to include persons traveling on commercial or personal business, family affairs and reasons of health, as well as recreation.

NOTE.—MR. LEDERER AND MRS. SASSER ARE MEMBERS OF THE BALANCE OF PAYMENTS DIVISION, OFFICE OF BUSINESS ECONOMICS.

Table 1.—Estimated Expenditures and Numbers of United States Residents Traveling in Foreign Countries

| Year | Estimated expenditures (in millions of dollars) ¹ | | | | | | | | Estimated numbers of travelers to overseas areas (in thousands) ² | | | | |
|------------------|--|--------|--------|----------------------|--------------------------|---------------------------------|---------------|--------------------------|--|--------------------------|---------------------------------|---------------|--------------------------|
| | All countries | Canada | Mexico | Total overseas areas | Europe and Mediterranean | West Indies and Central America | South America | Other Overseas countries | Total overseas areas | Europe and Mediterranean | West Indies and Central America | South America | Other overseas countries |
| 1929..... | 483 | 178 | 35 | 260 | 213 | 37 | 6 | 14 | 517 | 360 | 130 | 8 | 29 |
| 1937..... | 348 | 156 | 44 | 148 | 97 | 35 | 4 | 12 | 435 | 268 | 163 | 0 | 28 |
| 1947..... | 648 | 241 | 115 | 182 | 107 | 56 | 9 | 22 | 435 | 249 | 245 | 27 | 14 |
| 1948..... | 680 | 267 | 115 | 217 | 128 | 62 | 22 | 15 | 495 | 292 | 253 | 35 | 14 |
| 1949..... | 678 | 265 | 134 | 279 | 155 | 67 | 20 | 17 | 573 | 290 | 271 | 28 | 14 |
| 1950..... | 727 | 301 | 145 | 321 | 225 | 80 | 22 | 13 | 630 | 302 | 323 | 28 | 13 |
| 1st quarter..... | 115 | 24 | 39 | 51 | 22 | 17 | 7 | 4 | 140 | 85 | 101 | 0 | 4 |
| 2nd quarter..... | 178 | 58 | 32 | 83 | 70 | 15 | 5 | 2 | 175 | 87 | 75 | 0 | 4 |
| 3rd quarter..... | 309 | 146 | 43 | 120 | 97 | 15 | 5 | 2 | 225 | 131 | 80 | 11 | 3 |
| 4th quarter..... | 125 | 88 | 31 | 67 | 35 | 14 | 3 | 3 | 127 | 40 | 87 | 0 | 2 |

¹ Estimates include fare payments to United States and foreign carriers for travel between the United States and noncontiguous foreign countries. In the case of estimates for travel expenditures in Canada and Mexico, train and bus fare provided on the basis of the mileage covered in each country and plane and boat fares paid to Canadian or Mexican carriers are included with estimated travel expenditures in Canada and Mexico. All estimates exclude travel expenditures by military personnel, employees of the U. S. Government and international agencies and persons employed abroad, and include shore expenditures of cruise passengers.

² Travel between the United States and Canada and Mexico and cruise travel is excluded; travel via Canadian seaports, travel by aircraft and travel between insular possessions of the United States and foreign countries are included.

³ Revised figures.
Note: Detail will not necessarily add to totals because of rounding.

Source: U. S. Department of Commerce, Office of Business Economics, based on questionnaire returns and on data on number of travelers obtained from U. S. Department of Justice, Immigration and Naturalization Service.

In the absence of this limitation the travel volume undoubtedly would have been higher. It is uncertain, however, whether the number of travelers would have exceeded the 1929 volume, because of the declining long-term trend in the annual number of travelers after the data are adjusted for changes in national income. This trend can be accounted for by the decline of the foreign-born population in the United States, which provides a large proportion of the travelers to Europe. Even in 1950 this group provided about 45 percent of all travelers to that area as against 7 percent in the total population of this country.

Influence of special factors

During 1950 travel received a special boost as a result of the Holy Year. Visitors to Italy increased by about 50,000 over 1949. (See table 2.) A considerably more liberal policy in 1950 in permitting tourist travel in Western Germany also brought a very large increase in visitors to that country.

The effects of the foreign currency devaluations cannot be evaluated on the basis of the available data, although on the whole they meant lower prices for the travel dollar. In many countries, however, devaluations merely reduced the official exchange rate to the previously effective rate at which tourists could convert their currency. Consequently, per diem expenditures, which should reflect lower prices, did not decline. But it is interesting that in the United Kingdom, where the devaluation was greater and more effective than in many other countries, average dollar expenditures per day did not fall. Here the traveler received more for his dollar outlay.

Major declines in per diem expenditures were found only in the case of the Netherlands, where the devaluation was equal to that in the United Kingdom. In that country, the volume of travel (number of people times the average number of days spent there) increased sufficiently to leave the total expenditures unchanged. In the one major tourist country which did not devalue—Switzerland—total tourist expenditures did not change either, although per diem expenditures increased considerably. Apparently the increased per diem expenditures were offset by a shorter average length of stay within the country.

Expenditures for European trip average \$1380

Average expenditures per trip for all countries remained unchanged from 1949—at about \$770 excluding ocean fares. This stability is the result of an equal stability both in the average time spent abroad (about 2 months) and in the average daily expenditures of about \$12.

Within that stable average, however, several significant changes appear to have taken place. First, travelers by sea appear to have increased their foreign expenditures although

Table 2.—Number and Expenditures of United States Residents Traveling in Europe and the Mediterranean Area 1949¹ and 1950²; Total and Selected Countries

| Country | Year | Total expenditures ³ (millions of dollars) | Number of travelers ⁴ (thousands) | Average expenditures (dollars only) ⁵ (dollars) | Average length of stay (days only) ⁶ (days) | Average per diem expenditures (dollars only) ⁷ (dollars) |
|-------------------------------|------|---|--|--|--|---|
| Europe and Mediterranean..... | 1949 | 165.0 | 250.3 | 771 | 63 | 12.24 |
| | 1950 | 226.0 | 302.0 | 748 | 64 | 12.01 |
| Austria..... | 1949 | 2.5 | 16.0 | 250 | 21 | 10.43 |
| | 1950 | 3.0 | 32.1 | 150 | 12 | 10.25 |
| Belgium..... | 1949 | 6.5 | 40.8 | 118 | 9 | 12.88 |
| | 1950 | 4.5 | 47.2 | 95 | 9 | 10.69 |
| Denmark..... | 1949 | 2.5 | 10.2 | 153 | 22 | 6.70 |
| | 1950 | 4.0 | 22.1 | 173 | 18 | 9.25 |
| Eire..... | 1949 | 5.0 | 17.5 | 286 | 28 | 6.37 |
| | 1950 | 6.0 | 20.0 | 291 | 27 | 6.08 |
| France..... | 1949 | 48.0 | 130.5 | 353 | 22 | 10.48 |
| | 1950 | 56.0 | 164.0 | 340 | 19 | 17.98 |
| Germany..... | 1949 | 5.0 | 27.0 | 181 | 23 | 7.18 |
| | 1950 | 14.5 | 73.5 | 197 | 23 | 7.87 |
| Greece..... | 1949 | 1.0 | 3.8 | 263 | 25 | 9.06 |
| | 1950 | 4.0 | 10.2 | 292 | 61 | 7.34 |
| Italy..... | 1949 | 32.0 | 87.7 | 365 | 22 | 11.48 |
| | 1950 | 50.0 | 134.4 | 365 | 35 | 10.40 |
| Netherlands..... | 1949 | 5.0 | 48.2 | 134 | 6 | 14.37 |
| | 1950 | 6.0 | 56.0 | 107 | 10 | 10.77 |
| Norway..... | 1949 | 5.0 | 22.5 | 219 | 26 | 8.45 |
| | 1950 | 4.0 | 15.1 | 217 | 27 | 8.45 |
| Portugal..... | 1949 | 2.5 | 7.1 | 253 | 14 | 14.75 |
| | 1950 | 2.0 | 12.1 | 165 | 8 | 17.08 |
| Spain..... | 1949 | 2.0 | 11.2 | 268 | 31 | 16.48 |
| | 1950 | 2.8 | 12.9 | 180 | 21 | 8.48 |
| Sweden..... | 1949 | 6.5 | 33.0 | 197 | 24 | 8.51 |
| | 1950 | 5.0 | 24.7 | 202 | 28 | 7.10 |
| Switzerland..... | 1949 | 18.5 | 78.9 | 234 | 10 | 15.10 |
| | 1950 | 13.0 | 94.2 | 164 | 10 | 15.48 |
| United Kingdom..... | 1949 | 34.0 | 123.0 | 274 | 25 | 10.79 |
| | 1950 | 37.0 | 137.2 | 270 | 23 | 12.19 |

NOTE.—Data compiled from questionnaire returns.

¹ Figures for 1949 revised.

² Estimates exclude fare payments made to United States and foreign carriers for trans-Atlantic travel.

³ Excludes travelers on cruises to Europe, U. S. Government employees and United States residents employed abroad.

⁴ Excludes alien residents.

Source: U. S. Department of Commerce, Office of Business Economics.

the length of their foreign stay appears to have remained the same, while travelers by air reduced their expenditures considerably. (See table 3.) Average fare payments by air also declined. Total expenditures, including fares of air travelers, averaged about \$1300 dollars in 1950, approximately the same as the average for cabin class passengers. In 1949 average plane travelers spent about \$1400 per trip, while cabin class travelers spent \$1233 per trip. Some of the decline in the expenditures of plane travelers was due to the increased use of charter planes to carry organized groups of people, such as students or pilgrims.

Table 3.—Estimated Length of Stay, Average Expenditures, and Round Trip Fare Payments of Citizens Travelling to Europe and the Mediterranean Area 1949 and 1950, by Class of Accommodation¹

| Means of travel and class of accommodation | Number arriving at New York (thousands) | Average length of stay (days) | Average expenditures in foreign countries | | Average round-trip fare and shipboard expenses |
|--|---|-------------------------------|---|----------|--|
| | | | Per trip | Per diem | |
| Sea: | | | Dollars | Dollars | Dollars |
| First class | | | | | |
| 1949 | 36.4 | 53 | 1,275 | 25.20 | 945 |
| 1950 | 44.7 | 57 | 1,342 | 25.67 | 969 |
| Cabin class | | | | | |
| 1949 | 35.0 | 78 | 890 | 9.08 | 533 |
| 1950 | 42.3 | 69 | 862 | 11.50 | 523 |
| Tourist class | | | | | |
| 1949 | 44.3 | 30 | 617 | 6.40 | 404 |
| 1950 | 55.8 | 25 | 601 | 5.51 | 424 |
| Motor class | | | | | |
| 1949 | 10.7 | 74 | 547 | 7.39 | 480 |
| 1950 | 24.2 | 64 | 523 | 9.77 | 434 |
| All classes | | | | | |
| 1949 | 126.5 | 71 | 777 | 10.94 | 591 |
| 1950 | 169.2 | 71 | 850 | 11.74 | 593 |
| Air: | | | | | |
| 1949 | 64.5 | 47 | 787 | 16.11 | 694 |
| 1950 | 80.0 | 50 | 940 | 12.50 | 647 |
| Sea and Air, total: | | | | | |
| 1949 | 201.0 | 63 | 771 | 12.24 | 624 |
| 1950 | 253.8 | 64 | 108 | 12.04 | 611 |

¹ Data compiled from questionnaire returns. Figures exclude expenditures of military personnel, employees of the Government and international agencies, and persons employed abroad.

Source: U. S. Department of Commerce, Office of Business Economics.

Changes in expenditure pattern

Within the group of travelers by sea certain changes in the expenditure pattern may be observed. While average expenditures per trip remained approximately equal for the travelers using the most and least expensive ship accommodations, the expenditures of the travelers using the middle accommodations increased substantially, although the average length of their trips was significantly reduced.

One of the major factors responsible for this rise in expenditures was the larger number of native-born passengers using this class of accommodation, compared to 1949. The average expenditures of this group are considerably higher than those of foreign-born people, in spite of the fact that their length of stay is usually shorter. The much smaller average expenditures of foreign-born citizens, many of whom stay with their relatives also explain the relatively low expenditures of third-class passengers, which include approximately 80 percent foreign-born citizens as against 40 percent in the middle classes and 20 percent in the first class.

The larger expenditures of native-born citizens offset partly at least, the effect of the declining trend in the number of travelers, caused chiefly by a reduction in the number of foreign-born residents going abroad. If there were no change in the number of native-born citizens travelling abroad, total expenditures would decline relatively less than the number of travelers. The expenditure trend could be stabilized, however, if a decline of three foreign-born residents were compensated by an increase of two native-born.

The seasonal pattern of total travel expenditures in Europe and the Mediterranean area in 1950 appears to be the same as during the previous year (see table 5). The seasonal rise during the second and third quarters results both from higher number of travelers and from higher daily expenditures. The very large number of organized inexpensive tours to Italy reduced the rise in the third quarter, however, as compared to last year.

The political crisis during the middle of the year does not appear to have had a major effect on actual expenditures during 1950, although the number of travelers leaving for Europe showed an unusually sharp drop from June to July 1950 (see chart 2). This drop followed an unusually sharp rise during the preceding month, however, so that it cannot necessarily be attributed to the political developments at that time.

The number of departures during the closing months of the year declined somewhat more in 1950 than in 1949, and in fact fell below that of the preceding year. Only the next few months can indicate whether this decline reflects the changed political circumstances or whether it was merely due to a greater concentration of travel during the summer months facilitated by the increased transportation available.

Travel contributes large share of European dollar earnings

The European countries benefitting most from United States travel abroad are France, Italy, the United Kingdom, and Switzerland. Both in 1949 and in 1950 these countries accounted for about three-fourths of United States expenditures in this area. For these countries earnings from United States travelers (excluding fare payments to vessels of these countries) amounted to nearly one-fourth of their earnings through merchandise exports to the United States.

For Italy and France alone the dollar income from United States travelers amounts to nearly one-half of their dollar earnings from merchandise sales here. Although these ratios are smaller than in 1949 because merchandise exports to the United States increased since then, they nevertheless indicate the importance of travel in the balance of payments of these countries with the United States.

Travel in nearby areas shows little change

Travel expenditures in the nearby areas of Canada, Mexico and the Caribbean countries are influenced by somewhat different factors than expenditures in transatlantic countries.

First, travel to these countries was not so seriously interrupted by World War II as was overseas travel. Consequently, the pent-up demand was smaller and expenditures cannot be expected to rise so rapidly. Family relationships play a much smaller role and travel to the nearby areas is much less exposed to the effect of political developments. On the other hand, border traffic and short-term visits represent a substantial portion of travel in these countries. It might be expected, therefore, that travel in these countries would be more closely related to economic developments in the United States than transatlantic travel.

Prior to the war United States travel expenditures in these countries was rather closely correlated with disposable personal income in the United States. After adjustments for changes in incomes, travel expenditures in these areas showed a rising trend.² This trend was probably the result of the expansion of automobile traffic to Canada and Mexico and the growth of cruises to and facilities in the Caribbean area.

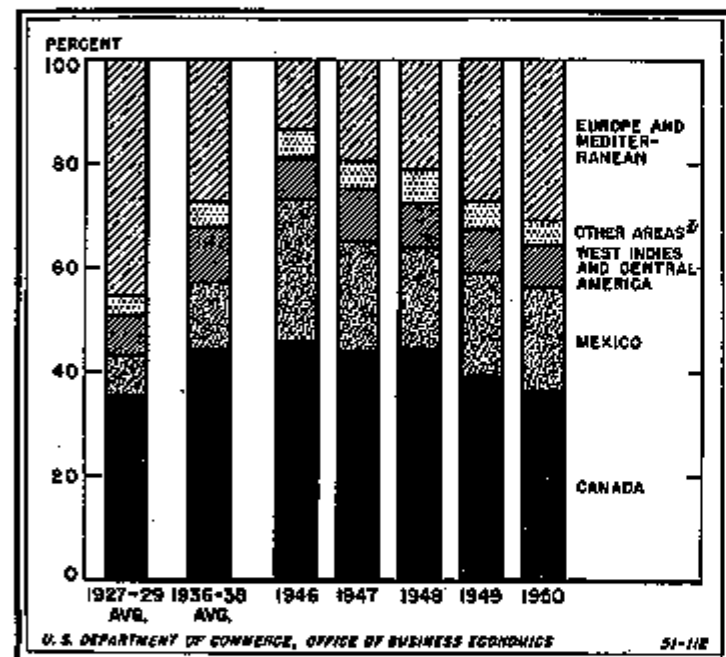
During the war, however, travel expenditures in these countries did not follow the rise in incomes for obvious reasons, such as the shortage of gasoline and tires.

² F. P. Sasser, American Expenditures for Foreign Travel in 1949; *SURVEY OF CURRENT BUSINESS* March 1950, chart I, p. 10.

From 1945 until 1949 expenditures rose again, approximately by the same amount for every billion of additional income as before the war. The upward trend relative to income, however, did not continue, as the prewar rate of increase in automobile traffic across the borders could not be maintained. Neither was the relative decline during the war years made up.

In 1950 the rise in travel expenditures in the nearby countries was only half of what would have been expected on the basis of the rise in disposable personal income. The relatively small rise may have been a factor in the large utilization of the additional disposable income during 1950 for the purchase of durable goods. Expenditures for consumer durables rose by about 23 percent, while disposable income increased by 8 percent. Recreational service expenditures in the United States actually declined from 1949 to 1950 and so did the average utilization of available hotel space. Apparently United States travel both in and outside the United States did not expand significantly.

Chart 2.—Travel Expenditures in Foreign Countries by Residents of the United States: Percentage Distribution by Areas¹



¹ Estimates exclude fare payments made to United States and foreign carriers for travel between the United States and noncontiguous foreign countries.

² Represents South America, Oceania, and non-Mediterranean Asia and Africa.

Source of data: U. S. Department of Commerce, Office of Business Economics.

Travel expenditures in Canada, which in 1950 amounted to 36 percent of total United States travel expenditures abroad have been stable since 1948. There was, however, a sharp increase from the war years until 1948. Travel to Mexico, on the other hand, expanded relatively slowly from the war years until 1948 but more rapidly in 1949 and 1950. The spurt during the last years may have been connected with the devaluation of the Mexican peso.

Foreign tourist expenditures in U. S. continue to rise

While United States tourist expenditures abroad approximately doubled from 1937 to 1950, foreign expenditures here increased nearly threefold, and without foreign exchange restrictions would have been even higher. The war and the emerging leadership of the United States in the political and economic field has undoubtedly increased the

desire of foreigners to visit this country. The rise in foreign travel expenditures in the United States was particularly sharp until 1947 when the travel centers in Europe had not yet recovered from the ravages of the war. In 1948 foreign travel expenditures here declined but recovered again in 1949 and rose to a new high in 1950.

The decline in 1948 and the subsequent recovery reflected mainly the effect of the tightening on foreign travel by Canada. In 1950, Canadians accounted for nearly half of foreign travel expenditures here. Although the population of Canada is only about one-tenth of the population of the United States, travel expenditures of Canadian residents here are about two-thirds of those of United States residents there.

The greater proximity of the Canadian population centers to the border and the greater distances to be covered by Canadians traveling in the United States may to some extent explain the relatively larger expenditures by Canadians in this country. On balance, Canadian earnings from tourist traffic were \$85 million in 1950 as compared to \$115 million in 1949. Net earnings of Canada in 1950 were not much larger in 1937.

Table 4.—Estimated Percentage of Foreign-born Among Total Citizens Arriving at New York from Europe and the Mediterranean Area,¹ 1949 and 1950

| Means of travel and class of accommodation | 1949 | | 1950 1st half |
|--|-------|----------|---------------|
| | Total | 1st half | |
| Sea: | | | |
| First class | 28 | 26 | 20 |
| Cabin class | 52 | 51 | 40 |
| Tourist class | 81 | 80 | 76 |
| Mono class | 40 | 45 | 42 |
| All classes | 47 | 44 | 44 |
| Air | 48 | 48 | 44 |
| Sea and Air, total | 47 | 46 | 44 |

¹ Based on tabulations of passenger manifests, citizens arriving from Europe and the Mediterranean Area at New York.

Source: U. S. Department of Commerce, Office of International Trade.

Table 5.—Number and Expenditures of United States Residents Traveling in Europe and the Mediterranean Area, 1949 and 1950 by Quarter

| Period | Travel Expenditures ¹ | Number of Travelers ² | Average per Trip Expenditures ³ | Average Length of Stay (citizens only) ⁴ | Average per diem Expenditures (citizens only) ⁵ |
|-----------------|----------------------------------|----------------------------------|--|---|--|
| | (Millions of dollars) | (Thousands) | (Dollars) | (Days) | (Dollars) |
| First Quarter: | | | | | |
| 1949 | 20.0 | 32 | 625 | n. a. | n. a. |
| 1950 | 23.0 | 35 | 657 | 67 | 9.69 |
| Second Quarter: | | | | | |
| 1949 | 55.0 | 71 | 775 | 58 | 13.45 |
| 1950 | 70.0 | 87 | 806 | 58 | 14.72 |
| Third Quarter: | | | | | |
| 1949 | 84.0 | 100 | 771 | 59 | 13.08 |
| 1950 | 97.0 | 131 | 741 | 64 | 11.87 |
| Fourth Quarter: | | | | | |
| 1949 | 24.0 | 38 | 634 | 62 | 11.35 |
| 1950 | 35.0 | 49 | 713 | 76 | 10.05 |
| Total: | | | | | |
| 1949 | 183.0 | 250 | 740 | 63 | 12.24 |
| 1950 | 225.0 | 303 | 742 | 64 | 12.04 |

¹ Estimates include shore expenditures of cruise travelers; exclude fare payments to United States and foreign carriers for transatlantic travel.

² Includes citizens and alien residents of the United States, exclusive of cruise travelers. Based on data obtained from U. S. Department of Justice, Immigration and Naturalization Service.

³ Combined averages of citizens and alien residents, based on tabulations of questionnaire returns.

⁴ Averages for citizens only, based on tabulations of questionnaire returns.

n. a.—Not available.

Source: U. S. Department of Commerce, Office of Business Economics.

Receipts from Latin American travelers increased steadily during the postwar period and reached in 1949 and 1950 about two-thirds of American expenditures in these countries. Since 1937 expenditures of Latin Americans in the United States increased about fourfold, far more than those of other areas. Aside from the reasons maintained above for the general rise of travel to the United States, the large increase on the part of Latin Americans reflects undoubtedly the improvement in their economic situation during and after the war. This applies particularly to Cuba and Mexico, which account for 56 percent of all travel expenditures by Latin Americans in the United States. Excluding Mexico, Latin American travelers spent more in the United States than United States travelers in Latin America.

Travel expenditures by Europeans in the United States in 1950 were only 50 percent above 1937, the increase being far less than the rise in the cost of living. Moreover, these expenditures have been declining steadily since 1947 when

exchange restrictions greatly tightened both for travel and for merchandise purchases in the dollar area.

Conditions favor increased foreign travel

With incomes in the United States higher than last year, and with consumer stocks of durable goods increased, the demand for travel may be expected to be higher in the coming season than last year.

If political developments do not discourage transatlantic travel, the somewhat higher ocean shipping capacity should facilitate a further rise in the number going to Europe during the coming season and to increase further European dollar receipts. Travel to nearby areas, which is less affected by political events, can likewise be expected to rise. However, the rise of travel to the latter countries can be expected—at least partly—to be offset by increased travel by their residents to the United States, stimulated by their rising incomes and their very much improved dollar position.

Accelerated Amortization and Private Facilities Expansion

(Continued from p. 18)

to note some of the aspects of the program as it relates to Federal revenues. Some notion of the financial "cost" to the Government may be gathered under certain simplifying assumptions as to the continued usefulness of the facilities and the course of Federal tax rates.

If, for example, it is assumed that the facilities will continue to have normal economic value after the emergency, the following calculations indicate the differential tax receipts which would ensue under given emergency and postemergency tax rate structures. The \$3.5 billion amortizable portion of the facilities expansion program to date is taken as a starting point. This figure tends to overstate the revenue reduction to the extent that some loss of economic usefulness will undoubtedly be involved after the termination of the emergency. On the other hand, such a figure understates the tax loss insofar as further amortization approvals will be granted. A normal useful life of 20 years is assumed by way of illustration.

Bearing in mind these qualifications, it will be noted that the revenue loss to the Government (or benefit to the owner) is greater the higher the effective tax rate applicable to income earned in the emergency, and the lower the postwar tax rates as compared with those currently in effect or in prospect. In the 77 percent, or highest, marginal tax bracket applicable under the present excess profits tax law, the revenue loss is calculated to be \$1.0 billion should the emergency last the full 5 years and the post-emergency corporate tax rates revert to the pre-Korean terms. With the 62 percent over-all effective tax limit now in effect, the comparable calculated loss would be somewhat less, about \$0.5 billion.

In the event that there is no change in tax rates over the life of these assets, there would be no direct revenue loss to the Government, but there would be a substantial interest cost depending on the average rate of interest paid by the Government and the average length of time over which tax payments are postponed through amortization.

Several important qualifications should be emphasized in evaluating the revenue "cost" aspect of the amortization program. In the first place, in the absence of this program, alternative methods of financing some of the required facilities, including possibly direct Federal outlays, would undoubtedly be necessary.

Moreover, revenue costs to the Government of such a program can hardly be evaluated without information on its effects on pricing and renegotiation policies. It may be noted the current provisions carry forward the World War II policies of allowing the amortization deduction in the renegotiation of emergency profits. To the extent that unusually rapid loss of economic value is incurred, such a practice is, of course, necessary in order to insure recovery of cost of facilities. However, to the extent that post-defense values are relatively well maintained, this procedure tends to enhance the advantages to businesses in making use of the amortization program.

In general it must be recognized that a full evaluation of the rapid amortization program can only be made in the light of the general environment in which the plan operates rather than by considering separate aspects of the program in isolation.

Recent Trends in Retail Trade

(Continued from p. 19)

To some extent the currently less favorable showing of the North Central States reflects the greater emphasis at present on the increased utilization of existing capacity as well as the reopening of standby plants and the conversion of establishments previously engaged in civilian production.

The fragmentary data available on differential impacts by store size indicate that here too the mobilization program is making itself felt only slowly. The indications are that the smaller stores benefited more than the larger from the increase in retail sales in 1950, and this is the usual situation in a period of rising economic activity. However, the evidence seems to show that the advantage of the small establishments was just as great in the first half of the year

as in the period following Korea.

Some further light is cast by a comparison of chain and independent store sales (chart 5 on page 19). In most lines of trade, the relative importance of these two groups of stores has altered very little since the first half of 1950. This is reminiscent of the period before our entry into World War II, where significant inroads were made by independents on the chains' relative standing only after Pearl Harbor.

Some significance may attach to the small increase in the position of grocery chains, which may be associated with the rapid rise in food prices. Under food rationing during the war, with price considerations secondary, grocery as well as other types of chains lost ground to independents.